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NEXT REVIEW DATE:

INTELLIGENCE HIGHLIGHTS -- WEEK OF 3 FEBRUARY - 9 FEBRUARY 1948

## GENERAL

Chinese hostility to US policy toward Japan The desperate plight of the Chinese Hational Covernment is further indicated by its growing tendency to incite anti-foreignism as a device to rally popular support and to counter widespread domestic discontent. This reckless course, for which China's history offers precedents, has found expression recently not only in the obviously inspired demonstrations in Conton and Shanghai, but in the ourrent Chinese press attacks on US policy toward Japan. These attacks have now acquired special significance (a) because their present virulence coincides with the visit to the US of the Chinese Technical Mission headed by Pei Tsu-yi, and US-China discussions of US aid to China; and (b) because the current attacks are spearheaded by the newspaper Ta Kung Pao, which has a traditional reputation for fairminded objectivity and which is identified by the Chinese people with Kucmintang's Political Science Group. This Group, notwithstanding the strong Party position of the "CC Clique," remains prominent in the direction of the Chinese Government and 1ts foreign relations. This seeming paradox of condemning a prospective benefactor may be explained as a design to fan popular chauvinism to the point where the Chinese Government can disclaim responsibility for the consequences if it is pushed too far toward accepting unpalatable conditions in international megotiations, -in this case negotiations on the Japanese Peace Treaty.

It is noteworthy that Chiang Kai-shek, when addressing university professors at Peiping in December 1947, refuted the view that the US was supporting the rebuilding of an aggressive Japan, and emphasized that the most important need for China was the regaining of its own strength. However, the Generalissimo's impatience regarding US aid for China, and the critical domestic situation, may explain his apparently tabit acquiescence in the present anti-US criticisms.

Undoubtedly, Chinese fears of a resurgent Japan are genuine and deep-seated. China has for long been a victim of Japanese martial ardor and urge for expansion which the intolerable congestion of the home islands, coupled with a progressive and adventurous national spirit, impell. China is persuaded that these fundamental Japanese attributes remain and can be easily revived to the point of loss of control. Horsover, China is conscious that its chronic internal dissensions and inherent national weaknesses have reduced it to impotency and to the threes of a struggle for survival. Finally, China envisions itself as a pawn in the US-Soviet struggle for world power, and sees a threatened abandonment by the US of China as a Great Power and a Porce in international affairs. Hence its efforts to promote its self-interests by playing on the designs and apprehensions of both the US and the USSR through suggesting the importance of its position as prospective arbiter or ally.

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Nevertheless, these genuine and legitimate Chinese fears of a resurgent Japan do not entirely explain the present rampant anti-US press and the Chinese manifestations of xenophobia. A complete explanation for these demonstrations must be sought in the motives discussed above which arise from the exigencies of deteriorating internal conditions.

Reparations discussions still deadlocked in the FEC

It is now believed that there is little hope that the USSR will alter its
stand on the reparations issue. After a year's discussion in the FEC no solution
is in sight despite recent efforts on the part of the US, Australia and New Zealand to resolve the question. In November 1947 the US announced that it would
put 18 percent of its reparations shares into a pool for subsequent distribution
among the other ten countries. Australia and New Zealand endorsed the idea and
agreed to contribute to the pool.

The USSR share, although raised by this proposal to 4 percent, still falls far short of the Soviet demand for 12 percent and the USSR has categorically stated it will not accept less. Meanwhile the US has pointed out the value of war booty the USSR has removed from Manchuria, the Russian acquisition of Kuriles and South Sakhalin and special rights and privileges obtained elsewhere in northern Asia arising out the Yalta agreements.

#### JAPAN

Japanese Cabinet resignation anticipated shortly. It is expected that the resignation of Katayama's coalition Cabinet will be formally announced this week. The resignation largely results from dissension within the Social Democratic Party between right and left wings culminating in differences over the supplementary budget bill. Social Democratic leaders feel that continuance in office might lead to a complete breakdown in the party while, as the opposition, these differences can be ironed out.

The Cabinet will probably resign on bloc rather than call for general elections. This political maneuver is based on the gradually decreasing popularity of the Social Democrats and the defeat they would incur in any decision at the polls. If successful in handing over the government to a more conservative group without elections the Social Democrats will not suffer a loss in Diet membership while the succeeding Cabinet inherits the present problems without a fiat from the electorate.

It is anticipated that Shigery Yoshida, the President of the Liberal Party (conservative), may be invited to form a Cabinet. The Liberals are currently trying to activate a new enlarged conservative combination to be known as the National Salvation Party. Such an organization might become the plurality party but it is doubtful if they could command a clear cut Diet majority since Hitoshi Ashida, head of the Democratic Party (conservative), has political ambitions and is also trying to form a new right wing combination in company with the Peoples' Cooperatives. This grouping is tentatively labeled the Central Renovation Party and appeals to the same conservative Diet minorities that the Liberals are trying to weld together.

The new Cabinet will probably be a coalition of conservatives more troubled by political opportunism than by the ideology which helped undo Katayama's coalition of the Social Democrats with the conservative Democrats and Peoples' Cooperatives.

#### KOREA

Public disorders in US Zone. The wave of strikes, terrorism, and sabotage which is currently disturbing the US Zone of Korea is clearly Communist-inspired and has been timed to accomplish three probable objectives: (1) to make the situation appear so complex and explosive as to discourage the UN from taking any decisive action since that body will be averse to identifying itself with a probable political flusco; (2) to embarrass the US occupation authorities by forcing them to take repressive measures and thus apparently substantiate Soviet charges that the US has erected a police state in South Korea which will not tolerate freedom of expression; and (3) to fortify the prostige of the Korth Korean regime internally and internationally by giving the disorders the appearance of being a spontaneous all-Korean demand for UM recognition of the legitimacy of the North Korean People's Committee. (The disorders were carefully timed to coincide with a national holiday so that the 3-day "paralysis" of economic activity could be advertized as the result of a successful general strike).

Thus far the extent of the disturbances is apparently limited and it is improbable that they will gain momentum and culminate in a wave of wholesale ricting such as the bloody insurrections of October, 1946. However it should be noted that rightist counter-measures, if insufficiently restrained by the police, could produce an ever-widening vortex of violence into which ev r-greater segments of the population would be drawn until an insurrectionary stage was attained.

The apparent failure of the South Korean Communists to produce a political crisis is hardly surprising and should not be taken as a South Korean "vote of confidence" in US Military Government. On the contrary, the results thus fur achieved appear quito remarkable when it is considered that the Communist organization in the US Zone, since August, 1947, has been subject to all the repressive force that could be mobilized against it by the rightist police force and funatically rightist youth groups. That it has been able to achieve even the present dislocation of economic and political life in South Korea on the basis of completely clandestine organization, is not so much due to the skill of the Communist organizers as to the fact that they were sowing fertile soil. The Communists have been able to appeal to the traditional Korean hatred of the rightist police force - a habred which is unfortunately largely justified. Moreover they have been able to call attention to the inequities in the South Korean economy, namely: the failure to enact a land reform law and the calloning cost of living index. While it is true that both of these latter situations are partially attributable to lack of certainty concerning South Koreu's political . future, the fact remains that as long as this situation continues, the South Korean Commists will have the capability of provoking mbl's disorders whenever the need arises.

#### CHINA

## Hilitary

Communist troops in Linchuria took another turn of the screw, tightening the military ring around linkden, when they captured Liacyang, south of the city, and forced the Nationalists to abundon all points along the Peiping-Lukden railway between Chinchou and Hairmin. With this rail line cut, the Communists are now intent on preventing the reinforcement of the Nationalist's lukden pocket by the troops of Fan Han-chieh. Communist troops from recently captured Hainlitun moved south and southwest of that city, captured Shihahan, Koupangtze, Lanshan, and Talingho, and are now attacking Chinchou. A concentration of Communist forces in the Ihaien area is a further threat to the Nationalist position in Chinchou and Mulutao, the last remaining important port of entry into Lanchuria for the National Government.

Nationalist troops of Fu Tso-yi are presently concentrated at Chohsien, midway between Feiping and Faoting, while the Communists are dispersed in the areas south and southwest of the latter city. No rejor actions took place in this theater during the past week. Scattered fighting was reported in northern Shansi with the Nationalists claiming the capture of a mumber of small towns. South of the Lunghai railway, Chen Yi was forced by Nationalist pressure to move further south into the Yencheng, Huaiyang region but where were no large-scale actions.

## Internal Affairs

The recent disturbances in Shanghai are symptomatic of the increasing unrest and disillusionment with the National Government. Three major civil disturbances, in the period from 29 January to 2 February, culminated in mob violence, destruction of property, and some loss of life. Thile the Communists — who are reported to have infiltrated into Shanghai labor unions and even into the garrison headquarters — doubtless have exploited these develorments to the fullest, the basic cause is, as usual, the result of the National Government's alienation of support through malpractice and administrative ineptitude. These specific, local conditions in Shanghai mirror the Government's predicament on a national level, where the Government continues to apply to worsening conditions the only remedy it has thus far been able to devise: force clumsily applied.

The United States continues to attract attention in the restless atmosphere of Taivan. With the US Army Advisory Group training Government soldiers on the island, Chinese sources have expressed fear that the influence of the US is encouraging separatist elements; these elements, however, actually find strength in the National Government policy toward Taivan. The Chinese authorities, attempting to maintain their none too secure hold over the Taivanese, are taking steps to suppress any Communist

tendencies among the Taiwanese (steps which will probably speed the spread of Communism on the island), and are preparing to prevent a demonstration reportedly planned for 28 February. The removal of the Chinese Governor, wei Tao-ming, has been rumored, with no sustaining evidence yet available.

## External Folitical

In connection with previous reports that certain Chinese elements favored USSR mediation in Chinese civil war, it is interesting to note that Youth Farty leader Tseng Chi has attacked USSR policies as Fascist, seeking world domination and disregarding China's sovereignty; and he has asserted that Russian insolence to Chinese was similar to that of the Japanese. He agrees with Hsu Shih's statement that the USSR is a fearful force for aggression. Expressions of anti-Soviet sentiment among Chinese has become more frequent recently, according to US Ekwal Attache, Nanking, who believes this partly genuine and partly for US consumption. The Shun Fao (KLT "CC" Clique) charged Russia with beginning new aggression in plan to build railroads completely surrounding the Northeast and Cuter Mongolia.

General Sung, Sinkiang garrison commander, has recently stated that he has 100,000 troops in the province. The US Consulate at Tihwa believes that in view of this and the receipt of additional supplies of munitions, Sung feels he has little reason to fear simple revolt of natives, although any appreciable Soviet assistance, even though covert, would completely change the picture.

Chinese newspapers have featured the Chinese reply to British Foreign Minister Bevin on Kowloon incident, in which Chinese reiterated their sovereignty over Kowloon City, and put the responsibility for the incident on the Hong Kong Government.

London Times states the Chinese Government should have negotiated the Kowloon jurisdiction issue earlier with the British Government and if this was not satisfactory could have resorted to the United Nations or the International Court.

US Embassy, Nanking, delivered a note to Chinese Fremier, 31 January, expressing growing concern and demanding prompt action on failure of Chinese Government to fulfill Surplus Sales Agreement and Supplement of July 1946, by handing over to US titles to property therein provided.

The Hanking Bureau of Trade Marks and Patents has informed the Embassy that preparations could not be made to accept applications for patents by 1 January 1948, but that full details and sample forms for filing applications would be submitted to Embassy "in the nearest future".

In connection with Government Information Director Hollington Tong's criticism of the alleged onesided and unfavorable to China releases of the USIS, the US Embassy issued a statement to the press, 28 January,

quoting statistics and other data to show that USIS releases "present a full and fair picture of American comment based on a weekly analysis of press opinion".

#### Economic

Currency. The official "open" US dollar selling exchange rate was a ain raised on 3 February to CN (133,000. This is the third upward revision since 30 December 1947 when it stood at CN (90,000 to US (1. The "open" rate is now more in line with the Shanghai blackmarket rate which confined its average daily fluctuations during the week to between CN (150,000 and 170,000.

The Shanghai blackmarket interest rate was reported at 21% per month on 6 February, compared with the previous high of 30%. Honey is comparatively easy on the Shanghai market in spite of the pre-lunar year stringency.

Frices. Although the US dollar blackmarket exchange rate mintained a fairly steady level during the week Shanghai commodity prices resumed their rising tendency. Rice solu at a new high of CN \$1,600,000 a picul on 6 February, after dealers refused to release stocks at the old ceiling of CN \$1,500,000, due to rising costs. Daily receipts of rice at Shanghai are now reported to be meeting only two-thirds of requirements. Rice prices went up sharply at Canton in spite of a recent good harvest.

95,200, based on the pre-war level.

US Aid. The State Department has recommended a relief program for the Chinese Government reported totaling US \$510 million. This program, subject to alteration and Congressional approval, would allocate funds to China for wheat, cotton, petroleum, rice, grains, tobacco and flour, over a 15 month's period beginning 1 April. This China proposal is described as a "holding operation" only, designed to prevent the Chinese economy from becoming worse, and would not be a permanent cure for her manifold economic ills.

Private Foreign inchange Holdings. The US Government has announced it will assist western European countries to pry loose private dollar assets held by their citizens in US banks and brokerage houses. Undeclared assets may be taken over by the US Government and turned over by Congress to the western Luropean nations seeking aid under the proposed Eurshall Plan. This would be of considerable help to many countries now in urgent need of foreign funds. Such a move brings new hope for China in receiving similar help. It is roughly estimated that Chinese citizens now hold convertible assets amounting to US \$200 million in the US. The National Government first approached the Wedemeyer Mission last summer for US help in calling in private funds, but the US Government was then unwilling to interfere with "our free private enterprise system". Chinese Government reaction to this late change in US policy is not yet clear.

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It is generally believed, however, that the Soong and Kung families the dominate the National Government scene, have substantial holdings in the US and would privately oppose the plan. If the plan were implemented, it is likely that some of the private holdings could not be traced because of "dummy" accounts.

CONTENENTIA

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BURMA

Since Aung San's assassination in July 1947, increasing friction has developed within the Anti-Fascist Learne (AFL) between two of its components. the Socialist Party and the Peoples' Volunteer Oreanization (PVO). The FVO's membership is made up of former members of the Burna Independence Army, Burma Defense Force, Burma National Army, and the Burma Patriotic Forces (all one and the same organization) under Auna San's leadership. After the war, those who were not accepted by the regular Burna Army formed the PVO, loyal only to Aung San, and became the AFL's armed wing, in effect, Aung San's private Army. Prior to his death, Aung San frequently stated that after independence the FVO would give up its military status and become an unarmed National Service Corps; however, since his death the organization has continued without chance. With the approach of independence an attempt was made early in December 1947 to merge the FVO with the Socialists and form a Marxist League within the AFL to strengthen the latter organization. The proposal received only a cool reception from the FVO. Premier Thakin Mu himself stepped into the negotiations before an open break occurred between the two proups and a satisfactory commonise seemed to have been reached whereby the formation of the Marxist League was restroned until next april and the PVO agreed to give up its military status.

Recently, however, it has been reported that some IVO leaders, one of them a cabinet member, have resigned from the AFL and the IVO, and have threatened to organize a rival political party. This turn of events results from the fact that a considerable section of the IVO is opposed to further cooperation with the Socialists. Undoubtedly, the basic issue between the two groups is political jealousy. The rank and file of the IVO are uneducated antifained rustics, many fancying themselves another Auna San, whereas a number of Socialists and Socialist sympathizers are fairly highly trained men, and better qualified for top-level govt service. Consequently, Socialists hold a majority of the important govt positions, probably out of proportion to their numercial strength. Justly, or not the FVO's feel slighted by not being given a fair share of govt jobs and believe that the Socialists are attempting to give them the brush-off, and that they can best serve their own interests by breaking away from the Socialists and forming their own party, perhaps an "Aung San Party."

A serious split within the TVO and between that croup and the Socialists could cause grave repercussions throughout Burma. Stability in Burma, at least in the foresceable future, depends on the continuance in office of the present govt supported by a strong AFL. Disinterration of the AFL, through just such actions as are contemplated by these TVO members will result in several small, feuding political parties structure around themselves for political dominance. The chaos created by such a state of affairs would present the communists, the only other well organized political party in Burma a clear opportunity to increase their influence. It is possible that Thakin Nu or some of the cooler heads in the covt may be able to prevent

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#### BURLIA (Continued)

any rash action on the part of either group, but their ability to compromise and make concessions is limited by their fear that such concessions will in themselves weaken the AFL. A PVO meeting is scheduled for 15 February, at which time it may very well be determined whether or not there will be a serious political crisis in Burma.

#### SIAM

The minuscule Siamese Communist Party ended a long period of rolative inactivity with the publication on 25 January of a communique from its Executive Committee which denounced the policies of the regime in power since the November coup, attacked efforts by "imperialist" nations - England, France and the US - to enslave Siam, and set forth the policy of the Communist Party. The policy statement among other things called for (a) the establishment of a Peoples Front to fight for complete independence; (b) the introduction of a new democratic political system; (c) the promotion of the people's economic welfare by the elimination of the influence of imperialistic countries and (d) the use of armed forces solely for national defense, and their removal from politics. This communique and renewed activity by Siamese Communists coincides closely with the arrival in Bangkok of two members of the Soviet diplomatic mission to Siam.

#### INDONESIA

Structural changes in new Republican cabinet. The Indonesian Republican cabinet of late January has a number of features which may enable it to operate with more facility than its predecessor. Mohammed Patta, who heads the naw cabinet, is believed to be entirely free from personal volitical ties, and it is anticipated that he will remain aloof from any partisan differences which may develop in the future. Radical "Left-ling" parties have been excluded from the cabinet and the majority of portfolios have been divided emong the moderate Nationalist Party, the somewhat ultra-conservative 'asjoemi (Moslem) Party, and non-partisens, with the remainder of the posts going to minor croups of a non-communist nature. Excepting the six Lasjoemi Party members, the political complexion of the recent cabinet is quite conservative. In past performance the allegedly pro-Dutch Masjoemi Party has always demanded a major share in the Republican government and it has developed such an extremely lightist position that it has successfully blocked must agreements with the Dutch chiefly because they were negotiated by a Left-Ting dominated government. The Republican Government's statement that the cabinet is now free from party strife will, therefore, have to be tested by time.

Aside from purely political considerations, the current cabinet has been streamlined to approximately one-third the size of the former unwieldy cabinet. Reduction of posts was accomplished by elimination of vice ministries and the consolidation of other relatively unimmortant ministries. Externally at least, the new cabinet fulfills Jopjakarta's claim that it is a "presidential business cabinet." Another trend noted by a study of

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### II:DOMESIA (continued)

cabinet structure is added emphasis in regard to social bettorment of the populace as evidenced by a chance in nomenclature from the "linistry of Education. Social Uplift, and Culture" to the "Ministry of Social Uplift, Education and Culture."

## PHILIPPINES

Romas expresses disappointment at UE "failure" to keen has vily sarries and bases in Philippines. In an unscheduled interview 5 February with a high ranking US Army officer, President Romas expressed surprise and disappointment that the US had failed to take adventage of opportunities to keep heavily germisoned bases in the Philippines stating that retention of the Central Luzon US Army base was inadequate. The President seemed suspled by continual withdrawal of US forces and was amazed that the US Ravy had deactivated its Samer base in favor of Guam. Appearing to speak—at least in part—for US consumption, President Romas stated he believed the State Department and Congress favored strong Philippine bases but that fulfillment seemed blocked by US Military Staff Sections who appeared to him to be neglecting considerations in the Philippines of friendship, rich land productivity, and mannover.

Rows to call for bids on surplus ammunition. Representatives of FLC and the Philippine Government signed an agreement in Manila on 6 February which authorizes President Rows to call for bids on disposal of approximately 92,000 long tons of surplus US ground and sviation ammunition in the Philippines. Under the agreement, which supersedes a coveract coroluded 19 January, (see FE/P Weekly 13-19 January) the ammunition must be demilitarised and scrap metal must be exported to the UE. In addition, the US is to receive 70% of net proceeds from sales to third parties while the Philippine Government retains 30% plus all export tax receives. Estimated to cost originally more than 70 million, the surplus ammunition is expected to provide approximately 24,000 tons of explosives, 7,000 tons of brass, and 58,000 tons of steel scrap. The Philippine Government, which must assume supervisory and security responsibility for the disposal project, expects to realize at least \$250,000 from export collections on the outgoing scrap and will retain the salvaged powder for commercial purposes.

The agreement calls for sealed bids to be presented by 20 February and provides that the Philippine Government may reject all bids if not satisfied that the contractor is competent to carry out the terms. Henry J. Kaiser and former Ambassador Paul V. McNutt are resorted among interested bidders.

Chinese protest nationalization of retail trade. The Philippine Government recently put into effect legislation barring aliens from city owned markets in Manila by cancelling the licenses of some 1000 Chinese stall-holders. The stalls were auctioned off to Filirinos during Jamuary despite legal action which included an unsuccessful appeal to the Eupreme Court and official representations from the Chirese Government.

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While protests over eviction from the city-owned markets continue a rew source of friction has developed. Chinese verders operating stands on privately owned land in Manile have resorted to court action in an attempt to prevent threatened eviction. This will test further the Philippine Government's efforts to estionalize the retail trade.

Onposition to Amresty Proclamation greater than expected. The Philipy ine Senate on 5 February voted 12 to 2 in favor of President Roxas' amnesty proclamation perdoning relitical and economic collaborators. The House of Represent tives was expected to vote in favor of the resolution on 9 February. Concurrence by both Houses of Congress is recessary before the Presidential proclamation granting emnesty to approximately 1,000 economic and relitical collaborators is effective.

Although Congressional concurrence was an acted, opposition to the measure has been greater then was enticinated. The most debated features of the proposed amounty in both Houses were its constitutionality and its restricted see a hepresentative Atienza of Manila claimed that the proposed amounty is unconstitutional or the grounds that amounty means cardon to persons convicted of crimes. In this case he points out that no indicted accused of colitical or economic collaboration has been convicted. Senator Lorenzo Tanada, former Collector General of the People's Court (special court set unafter liberation to try collaborators), challenged the proclamation on its scope, declaring that it has discriminatory, unjust, and vague. He stated that it mould merden collaborating officials while ignoring the moor, ignorant subordinates and claim citiates who carried out their orders, and "would confirm the growing belief among our seals that this is a government of big shots, by big shots, and for hig

Chief among amnesty opponents outside Congress has been dumerto Kangleon, currently Secretary of Sational Defense, and during the occuration, a leader in the resistance movement. It has been reported that should the amounty move succeed, he rould resign his position in protest.

# NET CALEDONIA

Consoring of US Mail reported. The US Consulate, Noumes, has reported that there is some evidence that mostal authorities in New Caledonia are consoring US mail. American residents of Noumes have reported discremencies to the Consulate involving delay of incoming mail and non-delivery of both incoming and outgoing mail.

The State Department in an ettempt to determine whether or not consorship is actually occurring, is sarding certain letters to the Consulate through the open mail.

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Lt. Gen. Robertson is reportedly attempting to persuade the MZ Government to leave MZ troops in Ju an after July 1948. MZ's fighter squadron will remain there in any case.

The USER has unclissed 50,000 tales of wool at a cost of 1,500,000 pounds from the current 12 wool clip.

#### AUSTR: LIA

an Australian Military Mission of 9 Army officers and 5 Air Force officers left Erisbans 5 February to assist in supervision of the Lutch Indonesian truce.

The aterside torkers have announced their intention to extend their ban on Dutch shipping to include cargo or the Finge ore-Australian run if the letter is resumed in March. The ban will not be lifted or modified until authorized by the Indonesian Trade Union Movement, which originally requested it.

Increased trade between Australia and Pakistan is forseen by Pakistan officials in Australia. Mr. Arthur Hell, Director General of rakistan isilroads, said that Pakistan Produced raw materials such as jute and cotton
which Australia reeded, while Australia could supply Pakistan ith woolen goods
and machinery. The Pakistan Trade Commissioner, Mr. A med Axhar, claimed that
in 2 years Pakistan could provide all of Australia's jute supplies and large
quantities of linseed oil and wool for carpet making.

